

Message Text

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PAGE 01 LONDON 01418 01 OF 02 281928Z

47

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-10 /133 W
----- 070306

R 281918Z JAN 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8518

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 01418

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: L/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR THE PERIOD JANUARY 22
THROUGH JANUARY 28, 1976

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PAGE 02 LONDON 01418 01 OF 02 281928Z

SUMMARY: SHOFT-TERM INTEREST RATES CONTINUE TO FALL GENERATING SPECULATION THAT THE BANK OF ENGLAND MAY AGAIN CUT THE MINIMUM LENDING RATE (MLR). THE MLR CURRENTLY STANDS AT 10-1/2 PERCENT (FOLLOWING A CUT OF 1/4 PERCENT ON FRIDAY, JANUARY 23), A REDUCTION OF 1-1/2 POINTS SINCE MID-NOVEMBER. THE FURTHER DOWNTREND IN MARKET RATES CONTINUES IN SPITE OF A REPORTED SHORTAGE OF FUNDS IN THE DOMESTIC MARKET RESULTING IN PART FROM THE PAYMENT OF 1975 TAXES. AN APPARENT PAUSE IN THE FALL OF U.S. RATES, AN IMPORTANT FACTOR IN THE LEVEL OF UK INTEREST RATES, MAY, HOWEVER, PRODUCE A TEMPORARY HALT TO THE DOWNWARD TREND IN THE UK MARKET. THE FOREIGN EXCHANGE MARKET HAS REMAINED RELATIVELY CALM OVER THE WEEK IN SPITE OF THE BRIEF FLURRY OF ACTIVITY FOLLOWING THE CLOSING OF THE ITALIAN MARKET. STERLING SHOWED SOME WEAKNESS ON THURSDAY AND FRIDAY (JANUARY 22-23) BUT NO MAJOR SPECULATION AGAINST THE POUND MATERIALIZED. END SUMMARY

1. ALNOUNCEMENT OF FURTHER PRICE CONTROLS. PRICE AND CONSUMER PROTECTION SECRETARY SHIRLEY WILLIAMS FURTHER OUTLINED THE GOVERNMENT'S LONG-AWAITED SCHEME TO HOLD PRICE INCREASES TO 5 PERCENT OVER THE PERIOD FEBRUARY THROUGH JULY ON A GROUP OF BASIC CONSUMER GOODS. IN A PARLIAMENTARY DEBATE ON JANUARY 27, SHE NOTED THAT THE SCHEME HAS WON THE SUPPORT OF THE RETAIL CONSORTIUM AND THE CONFEDERATION OF BRITISH INDUSTRY. DENYING CRITICISM FROM HER CONSERVATIVE FRONT BENCH SHADOW THAT THE SCHEME WAS MERELY COSMETIC, MRS. WILLIAMS SAID THAT THE SCHEME WAS DESIGNED TO MATCH THE RESTRAINT BEING SHOWN BY THOSE COOPERATING WITH THE SIX-POUND LIMIT. THE ITEMS INCLUDED IN THE SCHEME WERE NOT ANNOUNCED, BUT ARE EXPECTED TO SHOW CONSIDERABLE PRUNING FROM THE ORIGINAL 78 CATEGORIES. ITEMS SUCH AS TEXTILES AND GOODS AND SERVICES PRODUCED BY NATIONALIZED INDUSTRIES ARE STILL THE SUBJECT OF DEBATE AS TO WHETHER THEY WILL BE INCLUDED.

THERE IS LITTLE DOUBT THAT PRESSURES ON CONSUMER PRICES ARE EASING CONSIDERABLY. THIS TREND IS LIKELY TO CONTINUE WITH OR WITHOUT THE PRESENT SCHEME. THEREFORE THIS EXERCISE IS MORE UNDERSTANDABLE IN THE LIGHT OF THE GOVERNMENT EFFORT TO MAINTAIN SUPPORT FOR ITS ANTI-INFLATION PROGRAM AND DEMONSTRATE ITS CONCERN FOR THE WELFARE OF THE AVERAGE CONSUMER.

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PAGE 03 LONDON 01418 01 OF 02 281928Z

2. MOTOR VEHICLE OUTPUT. AUTOMOBILE OUTPUT IN THE FIVE WEEKS ENDING DECEMBER 27, 1975 WAS 117,431 UNITS, ABOUT 14 PERCENT BELOW THE DECEMBER 1974 LEVEL. FOR THE YEAR AS A WHOLE, AUTOMOBILE OUTPUT WAS 17 PERCENT BELOW THE 1974 LEVEL. WITHIN THIS TOTAL, PRODUCTION FOR EXPORT

FELL BY 11 PERCENT WHILE PRODUCTION FOR THE DOMESTIC MARKET FELL BY 20 PERCENT AS IMPORTS CONTINUED TO CAPTURE A GREATER SHARE OF THE TOTAL UK MARKET. THE PRODUCTION OF 33,512 COMMERCIAL VEHICLES DURING THE DECEMBER PERIOD WAS 17 PERCENT BELOW THE DECEMBER 1974 LEVEL. FOR THE YEAR AS A WHOLE, COMMERCIAL VEHICLE PRODUCTION WAS DOWN 6 PERCENT OVER THE 1974 LEVEL. HOWEVER, COMMERCIAL VEHICLE PRODUCTION FOR EXPORT ROSE BY 9 PERCENT DURING 1975 WHILE THE NUMBER PRODUCED FOR THE HOME MARKET FELL BY 17 PERCENT.

3. JOHN METHVEN APPOINTED TO CBI. THE NEW DIRECTOR GENERAL OF THE CONFEDERATION OF BRITISH INDUSTRY IS JOHN METHVEN, THE PRESENT DIRECTOR GENERAL OF FAIR TRADING.

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PAGE 01 LONDON 01418 02 OF 02 281930Z

47

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UNCLAS SECTION 02 OF 02 LONDON 01418

METHVEN IS REGARDED AS AN ADVOCATE OF A MIXED ECONOMY
 WITH INDUSTRY PLAYING A RESPONSIBLE ROLE IN THE FORMULA-
 TION OF NATIONAL ECONOMIC POLICY. IN HIS CURRENT POSI-
 TION HE GAINED A REPUTATION AS A SKILLED NEGOTIATOR AND
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PAGE 02 LONDON 01418 02 OF 02 281930Z

ADVOCATE OF THE RIGHTS OF THE CONSUMER. HE WILL REPLACE
 THE RETIRING DIRECTOR GENERAL OF CBI, SIR CAMPBELL
 ADAMSON NEXT HUNE.

4. EXCHANGE RATE AND GOLD

EFFECTIVE			
DATE	EXCHANGE RATE(\$)	DEPRECIATION (PERCENT)	GOLD
1/21	2.0240	30.0	125.00
1/22	2.0230	30.1	126.25
1/23	2.0235	30.1	128.75
1/26	2.0270	30.0	125.50
1/27	2.0265	30.0	126.50
CHANGE 1/20-1/27 DN 0.0045			UNCHANGED UP 2.25

5. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/21	1.00	2.57	4.60
1/22	0.93	2.62	4.60
1/23	0.85	2.58	4.55
1/26	0.85	2.58	4.58
1/27	0.80	2.55	4.55
CHANGE 1/20-1/27 DN 0.15			UP 0.10 UP 0.10
(ALL FIGURES IN CENTS)			

6. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/21	5	5-5/8	6-1/8
1/22	5-1/4	5-5/8	6-1/8
1/23	5-1/2	5-1/2	6-1/8
1/26	5-3/8	5-1/2	6-1/8
1/27	5-3/8	5-1/2	6

CHANGE 1/20-1/27 UP 1/4 UNCHANGED UNCHANGED

7. LOCAL AUTHORITY DEPOSIT RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/21	10-5/16	10-3/16	10-1/4
1/22	10-3/8	10-1/4	10-1/4
1/23	10-3/8	10-1/4	10-1/4
1/26	10-3/16	10-3/16	10-3/16
1/27	10-1/8	10-1/16	10-1/16

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PAGE 03 LONDON 01418 02 OF 02 281930Z

CHANGE 1/20-1/27 DOWN 1/16 DOWN 1/16 DOWN 1/16

8. THE MINIMUM LENDING RATE WAS CUT BY 1/4 PERCENT
TO A LEVEL OF 10-1/2 PERCENT ON FRIDAY, JAN.23. SPIERS

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Message Attributes

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Copy: SINGLE
Draft Date: 28 JAN 1976
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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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